

PERAC AUDIT REPORT



Athol Contributory Retirement System

JAN. 1, 2003 - DEC. 31, 2005



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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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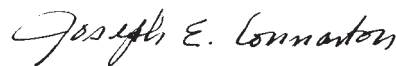
November 22, 2006

The Public Employee Retirement Administration Commission has completed an examination of the Athol Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2003 to December 31, 2005. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission, in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission, with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiner Richard Ackerson who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton
Executive Director



EXPLANATION OF FINDINGS AND RECOMMENDATIONS

I. Annual Statement:

Based upon inspection of the Annual Statements filed by the Board it was determined that certain discrepancies existed. The following were noted:

- Receipts and Disbursements pages did not agree with the Change in Fund Balances page.
- Adjusting entries were processed after the Annual Statement was generated. As a result, some Annual Statement data did not agree with the general ledger.
- Interest Due and Accrued was booked incorrectly; however, it was reported correctly on the Annual Statement. This created errors on the Investment Income page and balancing issues.
- The Annual Statement is being prepared manually, and therefore there are no automated checks to ensure everything balances.

Recommendation:

As a sole source of information to third parties, the Annual Statement and supporting schedules must be in agreement, allowing readers to make an accurate assessment of the System's financial condition without having to reference the general ledger. Prior to submission of the Annual Statement, a review process should be established to ensure all entries on the Annual Statement agree with the general ledger and all financial results correspond.

Board Response:

Manual deductions come from 3 separate and unique sources and are manually input into TACS. Manual checks are being performed to reconcile supplemental schedules to cash books and annual statement to insure accuracy. The new version of TACS will allow for systematic feeds.

2. Financial Records:

A review of the financial records disclosed several accounting issues, as follows:

- Journal entry descriptions are vague and inadequate. All descriptions are either receipts, disbursements, adjusting entries or closing entries. This makes it extremely difficult, if not impossible, to determine the purpose and accuracy of the entries.
- The pre-closing trial balance could not be traced through the closing entries to the post-closing trial balance. Closing entries are prepared manually with no explanation or supporting documentation for any adjusting entries.
- Interest Due and Accrued was booked incorrectly. The account is carrying a credit balance instead of a debit balance. This results in Investment Income being recorded incorrectly.
- The Accounts Receivable account could not be reconciled. The auditor could not determine what \$21,446.92 of the Accounts Receivable balance represented. This appears to be the result of undocumented adjusting entries.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

Recommendation:

Journal entry descriptions must provide the reason for the entry. Proper documentation must be maintained to support all adjusting and closing entries. The Board should use its automated accounting system to generate the closing entries. If entries are processed manually, Annual Statements can not be generated using the automated accounting system.

The Board must specifically identify all components of the Accounts Receivable account. The ultimate collection of these components must be evaluated. A periodic aging report must be compiled and analyzed. Complete journal entry descriptions that support every transaction will aid this assessment.

The journal entry for recording Interest Due and Accrued must be made as follows:

Debit #1550 Interest Due and Accrued
Credit #4820 Investment Income

The prior year Interest Due and Accrued journal entry must be reversed during this years closing process.

Board Response:

Recommended adjusting entry has been recorded. Entries now have descriptions that identify pertinent information that may be needed for future reference. Also, manual entries are no longer used and systematic closing entries will be used.

3. Annuity Reserve Interest:

The Annuity Reserve Fund interest calculation was incorrect all three years of the audit period. The calculation was done manually instead of automatically using the automated accounting system.

Recommendation:

A journal entry must be processed to transfer funds from the Pension Reserve Fund to the Annuity Reserve Fund to correct the erroneous calculations. The Board should start using the automated accounting system to calculate the interest.

Board Response:

The system will comply with the auditor's recommendation.

4. Membership Supplemental Schedule:

The 2005 Membership Supplemental Schedule did not balance to the Annuity Savings Fund general ledger balance. The 2005 beginning balance did not agree with the 2004 ending balance. The auditor identified six members' beginning balances that were different from their ending balances. The reason for the differences could not be readily determined.

In addition, the amounts posted to members' accounts for contributions, interest, transfers (in and out), refunds, and transfer to the Pension Reserve Fund did not agree with the general ledger amounts.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

Recommendation:

The Administrator must identify and correct all the errors noted above. The Administrator must ensure on a continuing basis that the Supplemental Membership Schedule balances to the Annuity Savings Fund and that the members' annuity savings accounts are correct.

Board Response:

The system is attempting a reconciliation of balances and will insure that all annuity savings balances are correct.

5. Board Meetings:

One Board member missed 83% of the meetings held in 2003, 58% in 2004, and 58% in 2005. An absentee rate of 25% or more is considered excessive.

Recommendation:

Attendance at Board meetings is an obligation that must be fulfilled by all Board members. It is the Board's responsibility to advise members to make every effort to uphold their duties to the System. The Board should consider adjusting the schedule of Board meetings in order to better accommodate its members. In extreme conditions, it may be necessary to take appropriate action with members who fail to maintain minimum attendance requirements.

Board Response:

The Board has addressed this issue in the past and value this member's input. Because of work commitments, the member may not be physically present at all Board meetings, but the Board had voted to allow this member to participate via conference calls, which has been adhered to.

6. Appropriations:

A review of the appropriations showed that the Athol Royalston Regional School District underpaid its appropriation by \$29,327.49 for fiscal 2004 and \$5,545.62 for fiscal 2005. It was also noted that the final payments were not received until the following fiscal year.

Recommendation:

The Board is obligated to collect the full amount of the assigned appropriations. It must collect the above amounts from the School District. Appropriations shall be paid from any available funds in the treasury of the governmental unit obligated by law to support the system and charged against the next regular appropriation or assessment, as the case may be. Also, if payments are not made in accordance with the approved schedule, interest should be added to the amounts due. Failure to satisfy its obligations to the System can result in legal action for recovery by contract as noted in G.L. c. 32, § 22 (7) (d).

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

Board Response:

The Board has recognized the serious overall financial and accreditation issues with ARRSD (Athol-Royalston Regional School District) and will work with them to insure appropriations are collected in a timely fashion.

7. Retirement Software Package:

The Board currently uses the TACS software system for accounting, membership and retiree recordkeeping. However, the system is not being used to its full capabilities. Many of the automated accounting functions are being done manually. This includes closing entries, Annuity Reserve Fund interest calculation, and preparation of the Annual Statement. Failure to use the automated system is the cause of several of the above findings. The primary reason for not fully utilizing the system is that the Administrator has not received proper training and is not aware of all the capabilities of the system.

Recommendation:

The Board must ensure that the Administrator is properly trained and the software system is used to the fullest extent.

Board Response:

The Board has recognized the problems involved in maintaining a system that requires a full-time administrator. Because of the administrator's full-time position with the Town, time requirements have prohibited training, everything associated with the system was performed manually. The Board is implementing the new version of TACS and is advertising and hiring an administrator.

8. System Administration:

Currently the Athol Town Accountant is also responsible for the administration of the Retirement System. In the past this was a common arrangement for smaller systems. However, Athol is the only system in the Commonwealth currently operating under this structure. All other Boards have hired administrators, because the demands of directing retirement systems have increased to the point where the Town Accountant can not effectively handle the requirements of both positions. This appears to be the case in Athol.

Recommendation:

It is highly recommended that the Board hire an Administrator for the Retirement System.

Board Response:

The Board has recognized the problems involved in maintaining a system that requires a full-time administrator and has started the process of advertising and hiring an administrator.

FINAL DETERMINATION:

PERAC Audit staff will follow up in six (6) months to ensure appropriate actions have been taken regarding all findings.

STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF DECEMBER 31,		
	2005	2004	2003
Net Assets Available for Benefits:			
Cash	\$1,099,036	\$1,175,813	\$798,891
Short Term Investments	980,096	172,659	233,654
Fixed Income Securities	3,922,815	5,749,287	4,955,980
Equities	8,461,231	6,280,115	5,377,520
Pooled Domestic Fixed Income Funds	0	0	504,661
Pooled International Fixed Income Funds	0	0	627,709
Interest Due and Accrued	(3,956)	(21,482)	70,139
Accounts Receivable	785,735	481,538	757,433
Accounts Payable	0	0	0
Total	<u>\$15,244,956</u>	<u>\$13,837,931</u>	<u>\$13,325,987</u>
Fund Balances:			
Annuity Savings Fund	\$4,818,440	\$4,544,327	\$4,074,612
Annuity Reserve Fund	2,287,069	2,264,230	2,399,985
Pension Fund	1,395,846	1,266,001	1,376,346
Military Service Fund	1,677	1,636	1,600
Expense Fund	0	0	0
Pension Reserve Fund	6,741,924	5,761,737	5,473,443
Total	<u>\$15,244,956</u>	<u>\$13,837,931</u>	<u>\$13,325,987</u>

STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2003)	\$4,038,430	\$2,164,305	\$1,476,577	\$1,561	\$0	\$4,219,910	\$11,900,784
Receipts	595,059	65,282	1,330,964	39	63,982	1,253,533	3,308,858
Inter Fund Transfers	(373,923)	373,923	0	0	0	0	0
Disbursements	(184,955)	(203,524)	(1,431,194)	0	(63,982)	0	(1,883,655)
Ending Balance (2003)	4,074,612	2,399,985	1,376,346	1,600	0	5,473,443	13,325,987
Receipts	580,953	36,140	1,448,436	35	88,016	288,294	2,441,875
Inter Fund Transfers	(43,930)	43,930	0	0	0	0	0
Disbursements	(67,308)	(215,826)	(1,558,781)	0	(88,017)	0	(1,929,931)
Ending Balance (2004)	4,544,327	2,264,230	1,266,001	1,636	(0)	5,761,737	13,837,931
Receipts	569,388	77,490	1,697,831	41	110,136	980,187	3,435,073
Inter Fund Transfers	(175,711)	175,711	0	0	0	0	0
Disbursements	(119,565)	(230,361)	(1,567,985)	0	(110,136)	0	(2,028,047)
Ending Balance (2005)	<u>\$4,818,440</u>	<u>\$2,287,069</u>	<u>\$1,395,846</u>	<u>\$1,677</u>	<u>(\$0)</u>	<u>\$6,741,924</u>	<u>\$15,244,956</u>

STATEMENT OF RECEIPTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2005	2004	2003
Annuity Savings Fund:			
Members Deductions	\$528,409	\$501,506	\$508,773
Transfers from Other Systems	0	39,759	31,379
Member Make Up Payments and Re-deposits	28,374	15,467	16,512
Member Payments from Rollovers	0	0	0
Investment Income Credited to Member Accounts	<u>12,605</u>	<u>24,220</u>	<u>38,395</u>
Sub Total	<u>569,388</u>	<u>580,953</u>	<u>595,059</u>
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund	<u>77,490</u>	<u>36,140</u>	<u>65,282</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems	71,443	38,659	66,441
Received from Commonwealth for COLA and Survivor Benefits	76,387	89,358	90,617
Pension Fund Appropriation	<u>1,550,000</u>	<u>1,320,419</u>	<u>1,173,906</u>
Sub Total	<u>1,697,831</u>	<u>1,448,436</u>	<u>1,330,964</u>
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	0	0	0
Investment Income Credited to the Military Service Fund	<u>41</u>	<u>35</u>	<u>39</u>
Sub Total	<u>41</u>	<u>35</u>	<u>39</u>
Expense Fund:			
Expense Fund Appropriation	0	0	0
Investment Income Credited to the Expense Fund	<u>110,136</u>	<u>88,016</u>	<u>63,982</u>
Sub Total	<u>110,136</u>	<u>88,016</u>	<u>63,982</u>
Pension Reserve Fund:			
Federal Grant Reimbursement	0	0	32,965
Pension Reserve Appropriation	0	0	0
Interest Not Refunded	95	393	185
Miscellaneous Income	0	0	0
Excess Investment Income	<u>980,092</u>	<u>287,901</u>	<u>1,220,383</u>
Sub Total	<u>980,187</u>	<u>288,294</u>	<u>1,253,533</u>
Total Receipts	<u>\$3,435,073</u>	<u>\$2,441,875</u>	<u>\$3,308,858</u>

STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2005	2004	2003
Annuity Savings Fund:			
Refunds to Members	\$78,421	\$62,160	\$112,781
Transfers to Other Systems	<u>41,143</u>	<u>5,148</u>	<u>72,174</u>
Sub Total	<u>119,565</u>	<u>67,308</u>	<u>184,955</u>
Annuity Reserve Fund:			
Annuities Paid	230,361	215,826	203,524
Option B Refunds	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>230,361</u>	<u>215,826</u>	<u>203,524</u>
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	1,112,512	1,124,789	1,063,345
Survivorship Payments	115,892	128,578	116,597
Ordinary Disability Payments	27,596	28,976	29,885
Accidental Disability Payments	196,441	151,561	109,455
Accidental Death Payments	51,751	65,310	69,974
Section 101 Benefits	0	0	0
3 (8) (c) Reimbursements to Other Systems	63,794	59,568	41,939
State Reimbursable COLA's Paid	0	0	0
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>1,567,985</u>	<u>1,558,781</u>	<u>1,431,194</u>
Military Service Fund:			
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>
Expense Fund:			
Board Member Stipend	0	0	0
Salaries	36,292	22,126	13,917
Travel Expenses	0	0	24
Administrative Expenses	13,101	21,494	7,115
Furniture and Equipment	1,619	0	359
Management Fees	47,662	42,450	34,553
Custodial Fees	5,378	1,946	8,013
Consultant Fees	6,085	0	0
Fiduciary Insurance	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>110,136</u>	<u>88,017</u>	<u>63,982</u>
Total Disbursements	<u>\$2,028,047</u>	<u>\$1,929,931</u>	<u>\$1,883,655</u>

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2005	2004	2003
Investment Income Received From:			
Cash	\$16,128	\$6,514	\$6,424
Short Term Investments	15,721	5,164	3,661
Fixed Income	333,589	377,432	318,639
Equities	151,669	106,892	79,150
Pooled or Mutual Funds	0	0	0
Commission Recapture	42	0	0
Total Investment Income	<u>517,149</u>	<u>496,001</u>	<u>407,875</u>
Plus:			
Realized Gains	115,265	149,942	273,468
Unrealized Gains	1,021,493	359,936	890,216
Interest Due and Accrued on Fixed Income Securities - Current Year	<u>(3,956)</u>	<u>(21,482)</u>	<u>70,139</u>
Sub Total	<u>1,132,802</u>	<u>488,396</u>	<u>1,233,823</u>
Less:			
Paid Accrued Interest on Fixed Income Securities	(55,698)	(92,866)	(82,876)
Realized Loss	(421,308)	(302,894)	(48,977)
Unrealized Loss	0	(222,463)	(36,021)
Interest Due and Accrued on Fixed Income Securities - Prior Year	<u>21,482</u>	<u>70,139</u>	<u>(85,744)</u>
Sub Total	<u>(455,523)</u>	<u>(548,084)</u>	<u>(253,618)</u>
Net Investment Income	<u>1,194,428</u>	<u>436,313</u>	<u>1,388,080</u>
Income Required:			
Annuity Savings Fund	12,605	24,220	38,395
Annuity Reserve Fund	91,554	36,140	65,282
Military Service Fund	41	35	39
Expense Fund	<u>110,136</u>	<u>88,016</u>	<u>63,982</u>
Total Income Required	<u>214,336</u>	<u>148,412</u>	<u>167,697</u>
Net Investment Income	<u>1,194,428</u>	<u>436,313</u>	<u>1,388,080</u>
Less: Total Income Required	<u>214,336</u>	<u>148,412</u>	<u>167,697</u>
Excess Income To The Pension Reserve Fund	<u>\$980,092</u>	<u>\$287,901</u>	<u>\$1,220,383</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2005			
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED*
Cash	\$1,099,036	7.6%	100%
Short Term	980,096	6.8%	
Fixed Income	3,922,815	27.1%	
Equities	8,461,231	58.5%	50%
Grand Total	<u>\$14,463,177</u>	<u>100.0%</u>	

For the year ending December 31, 2005, the rate of return for the investments of the Athol Retirement System was 8.06%. For the five-year period ending December 31, 2005, the rate of return for the investments of the Athol Retirement System averaged 3.54%. For the twenty-one year period ending December 31, 2005, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Athol Retirement System was 8.23%.

SUPPLEMENTARY INVESTMENT REGULATIONS

The Athol Retirement System submitted the following supplementary investment regulations, which were approved by PERAC on:

August 8, 1989

Real Estate Investments shall not exceed 7% of the total book value of the portfolio at the time of purchase.

January 3, 1992

16.02(4) The board may employ a custodian bank and may charge such expenses against earned income from investments provided that such expenses shall not exceed in any one year .08% of the value of the fund.

July 18, 1996

Equity Investments shall not exceed 50% of the total book value of the portfolio at the time of purchase.

April 20, 2001

16.08 Fleet Investment Advisors manages all of the Athol Retirement Board's portfolio assets. Because of the small size of the assets involved, the manager and the board agree that it is more efficient to achieve the desired allocation to small cap stocks within the equity portion by investing in Fleet's small cap pooled fund rather than purchasing individual stocks. Therefore, under Investment Guideline 99-2, the Board is authorized to invest in the Galaxy Small Company Equity mutual fund.

NOTES TO FINANCIAL STATEMENTS

NOTE I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Athol Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

ADMINISTRATION

There are 106 contributory Retirement Systems for public employees in Massachusetts. Each system is governed by a retirement board, and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements, and a uniform accounting and funds structure for all systems.

PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal, or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 3 classes of membership in the Retirement System:

Group 1:

General employees, including clerical, administrative, technical, and all other employees not otherwise classified.

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

NOTES TO FINANCIAL STATEMENTS (Continued)

MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of \$30,000.

RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire at age 65. There is no mandatory retirement age for employees in Group 1.

SUPERANNUATION RETIREMENT

A member is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2

NOTES TO FINANCIAL STATEMENTS (Continued)

AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year average salary. For veterans as defined in G.L. c. 32, s. 1, there is an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

- Salary is defined as gross regular compensation.
- Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last three years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age, but the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.

DEFERRED VESTED BENEFIT

A participant who has completed 10 or more years of creditable service is eligible for a deferred vested retirement benefit. Elected officials and others who were hired prior to 1978 may be vested after 6 years in accordance with G.L. c. 32, s. 10.

The participant's accrued benefit is payable commencing at age 55, or the completion of 20 years, or may be deferred until later at the participant's option.

WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. Employees who first become members on or after January 1, 1984, may receive only limited interest on their contributions if they voluntarily terminate their service. Those who leave service with less than 5 years receive no interest; those who leave service with greater than 5 but less than 10 years receive 50% of the interest credited.

NOTES TO FINANCIAL STATEMENTS (Continued)

DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

ORDINARY DISABILITY

Eligibility: Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, s. 6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching "maximum age".

Retirement Allowance: Equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member's final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

ACCIDENTAL DISABILITY

Eligibility: Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$611.28 per year (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member's retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution.

NOTES TO FINANCIAL STATEMENTS (Continued)

ACCIDENTAL DEATH

Eligibility: Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

Allowance: An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of \$312 per year, per child, payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries resulting in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death.

In addition, an eligible family member may receive a one time payment of \$100,000.00 from the State Retirement Board.

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of \$6,000.

DEATH IN ACTIVE SERVICE

Allowance: An immediate allowance equal to that which would have been payable had the member retired and elected Option C on the day before his or her death. For death occurring prior to the member's superannuation retirement age, the age 55 benefit rate is used. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is \$3,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

The surviving spouse of such a member in service receives an additional allowance equal to the sum of \$1,440 per year for the first child, and \$1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

NOTES TO FINANCIAL STATEMENTS (Continued)

COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. The first \$12,000 of a retiree's total allowance is subject to a cost-of-living adjustment. The total Cost-of-Living adjustment for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

Option A: Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

Option B: A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

Option C: A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who remains unmarried for a member whose retirement becomes effective on or after February 2, 1992, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up") based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

NOTES TO FINANCIAL STATEMENTS (Continued)

ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Athol Retirement System has not submitted any supplementary membership regulations.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five person Board of Retirement consisting of the Town Accountant who shall be a member ex-officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex-officio Member: Gene Ferrari

Appointed Member: Joe Wotjkowski Term Expires: 12/31/07

Elected Member: James W. Wright Term Expires: 06/30/08

Elected Member: Brian Martin Term Expires: 06/30/09

Appointed Member: Brian Stoddard Term Expires: 12/31/07

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by at least two members of the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:)	
Ex-officio Member:)	\$1,000,000 Fiduciary Insurance
Elected Member:)	Travelers Insurance Co.
Appointed Member:)	
Staff Employee:)	

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by PERAC as of January 1, 2005.

The actuarial liability for active members was	\$12,585,638
The actuarial liability for retired and inactive members was	<u>15,414,622</u>
The total actuarial liability was	28,000,260
System assets as of that date were	<u>13,837,931</u>
The unfunded actuarial liability was	<u>\$14,162,329</u>
 The ratio of system's assets to total actuarial liability was	 49.4%
As of that date the total covered employee payroll was	\$6,021,855

The normal cost for employees on that date was 8.26% of payroll

The normal cost for the employer was 6.91% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return:	8.00% per annum
Rate of Salary Increase:	Varies per annum

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2005

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2005	\$13,837,931	\$28,000,260	\$14,162,329	49.4%	\$6,021,855	235.2%
1/1/2002	\$12,302,987	\$22,651,524	\$10,348,537	54.3%	\$6,071,955	170.4%
1/1/2000	\$11,294,345	\$20,139,860	\$8,845,515	56.1%	\$5,435,154	162.7%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Retirement in Past Years										
Superannuation	4	9	2	0	1	9	20	7	0	7
Ordinary Disability	1	0	0	1	1	0	0	0	0	0
Accidental Disability	0	0	1	0	0	0	0	2	1	1
Total Retirements	5	9	3	1	2	9	20	9	1	8
Total Retirees, Beneficiaries and Survivors	126	129	139	132	129	131	149	148	145	143
Total Active Members	288	291	281	309	329	333	323	226	232	230
Pension Payments										
Superannuation	\$599,737	\$611,223	\$649,715	\$622,687	\$626,765	\$682,223	\$855,584	\$1,063,345	\$1,124,789	\$1,112,512
Survivor/Beneficiary Payments	75,930	81,353	65,073	89,117	104,944	86,039	101,165	116,597	128,578	115,892
Ordinary Disability	14,156	13,883	14,045	26,015	23,707	26,104	29,031	29,885	28,976	27,596
Accidental Disability	82,723	83,095	107,287	86,928	102,138	110,662	108,746	109,455	151,561	196,441
Other	<u>99,830</u>	<u>99,431</u>	<u>82,827</u>	<u>133,174</u>	<u>74,365</u>	<u>109,760</u>	<u>134,223</u>	<u>111,913</u>	<u>124,878</u>	<u>115,545</u>
Total Payments for Year	<u>\$872,376</u>	<u>\$888,985</u>	<u>\$918,947</u>	<u>\$957,921</u>	<u>\$931,918</u>	<u>\$1,014,787</u>	<u>\$1,228,749</u>	<u>\$1,431,194</u>	<u>\$1,558,781</u>	<u>\$1,567,985</u>

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